



Full Cost Recovery in the Third Sector
CO3 Snapshot Survey and Recommendations
2021

Introduction

Covid-19 has had a devastating impact on the Third Sector. The crisis has affected charities and social enterprises large and small in many ways. The most notable impact is the immediate loss of income. For many they have got through this initial period stopping or repurposing services, furloughing staff and/or seeking emergency funds. Whatever changes made in the short term, many are now looking into the future and how they can plan for recovery.

An important aspect of recovery is the Full Cost Recovery (FCR) of grants and contracts for services from the public sector. This has been a long-standing concern across the sector. The pandemic has heightened its importance given the new layer of financial pressures impacting a wide range of organisations. Previously when public sector funding was below the full cost to deliver services on behalf of government, organisations subsidized the additional costs mainly from unrestricted funds. This approach over a sustained period of time ultimately places services and organisations at risk. It also has implications for the long-term future of the organisation, as there is less funding available to invest in the core costs. Doing more for less over a sustained period of time has impacted determinately on the sector. It is no longer feasible to work on this basis.

This issue was raised as part of a meeting with the Minister for Communities in November 2020. Minister Ní Chuilín had asked for a stronger evidence base, to provide examples of where FCR was not being implemented, with a commitment to follow up with her Ministerial counterparts seeking a commitment to funding that ensured FCR in the future for our sector.

Therefore, we issued a survey to our CEO and Senior Management members seeking their views and examples. The survey was issued to full and associate members of CO3 on 13 November and remained open for three weeks. We received **104** responses from charity leaders, representing a 20% response rate. This snapshot survey paints a concerning picture and highlights several examples where FCR has not been a consideration of a range of government departments and arm's length public bodies.

Executive Summary

We received 104 survey responses from organisations, with the majority providing services within health and social care as well as services that relieve those that are most disadvantaged in society. In addition, nearly 50% of organisations employ up to 20 people and are based right in the heart of the community providing much needed support with half (50%) of the respondents indicating an annual gross income of £1 million and over.

The majority (90%) of respondents received public sector funding (grants, competitive and restricted tenders), of which **95% stated they received funding** in the form of grants. However, **nearly three quarters of grant funding received was allocated annually** or on a one-year basis which continues to make it extremely difficult for organisations to long term plan as well as align key outputs and outcomes with Programme for Government outcomes and measurements. In addition, as most of the funding is allocated to services that are required to support the delivery of health, social care needs and community activity aimed at relieving hardship and disadvantage, there is a huge risk to Northern Ireland building back better after the pandemic.

Nearly two thirds of organisations (66 %) stated their funding did not include full cost recovery (FCR) of grant funding and 80% of respondents stated they had to **cover up to 25% of the actual funding required** to deliver the service. In terms of cost, one quarter of organisations had to subsidise a contract by over £50,000. Furthermore, an additional **40% of organisations** stated they had to subsidise the contract with extra income between **£20,000 and £50,000**.

In terms of full cost recovery from competitive tenders funding, of the nearly 50% of the respondent that stated they received funding via competitive tenders, over three quarters (78%) highlighted they had tenders that covered three years + of funding. However, **half of the organisations stated that funders covered up to 75% of the actual funding required to deliver the service**. As such, 73% of respondents stated they had to cover up to a quarter of the actual cost of delivery. In terms of cost, **half of the organisations surveyed stated they were incurring costs of between £10,000 and £20,000**, with **one quarter stating they had paid at least £30,000**.

In terms of restricted tenders funding, respondents outlined concern regarding the short-term funding cycle as half of respondents stated they had one-year restricted tenders. Despite the small survey sample, half of the organisations stated there was full cost recovery built into the funding and two thirds stated 75% of costs of delivery were covered by the funder. However, when asked about specific costs, **one organisation stated it had £80,000 or 20% of the cost to pay over one year to deliver a service**.

further pressure on reserves with **over half (54%)** of respondents stating their organisations financial reserves have decreased since the start of the pandemic.

The findings from this survey further support the findings of the previous CO3 research into the impact of COVID-19 on the Northern Ireland charity sector (October 2020). As cited in the October 2020 research, 31% of respondents stated their organisation was at risk of closure. With increasing financial pressure on charities combined with an explosion of needs from local communities, the sector has had an increased risk of closure and CO3 strongly believes several actions can be taken that will ensure the sector continues to offer such life-enhancing and life-saving support as the country strives to build back better.

Recommendations

Outlined below are several key recommendations/asks CO3 would encourage key decisions makers, policy makers and funders to consider as soon as possible:

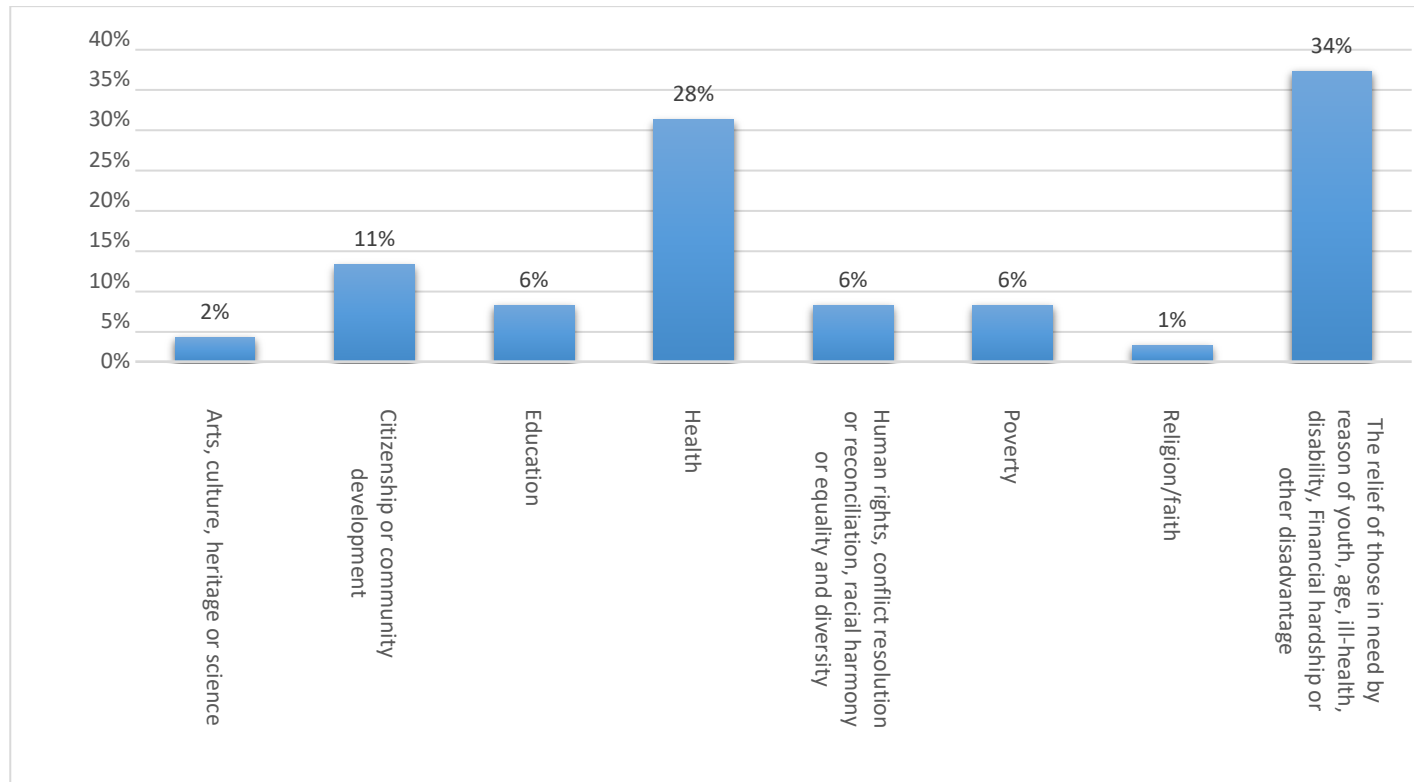
- 1. Full cost recovery needs to be built into every funding stream and procurement procedure for all future funding activity of the VCSE. Charities and social enterprises must be able to put forward transparent and appropriately costed bids with all costs covered including a fair proportion of overheads. Funders need to fund charities on a sustainable basis. In order to achieve this formal recognition of a full cost recovery framework adapted across all elements of public sector funding would ensure that a full cost recovery methodology is embedded into the design of public sector funding. This framework would require to be co-designed and agreed with the sector and recognised as good practice.**
- 2. Prioritise the ending of short-term funding. We are calling for a minimum of at least three years to ensure each organisation has the opportunity to build back better.**
- 3. There is a gap in the understanding of what FCR is. Charities and social enterprises need to understand their overhead levels and be able to justify these to funders. There is a need to design and develop training both for the third sector and for commissioners and funders to develop a better understanding of a FCR approach. This training would be co-designed and co-produced.**

Full Cost Recovery - The Survey Results:

Outlined below is a more detailed look at each question and response.

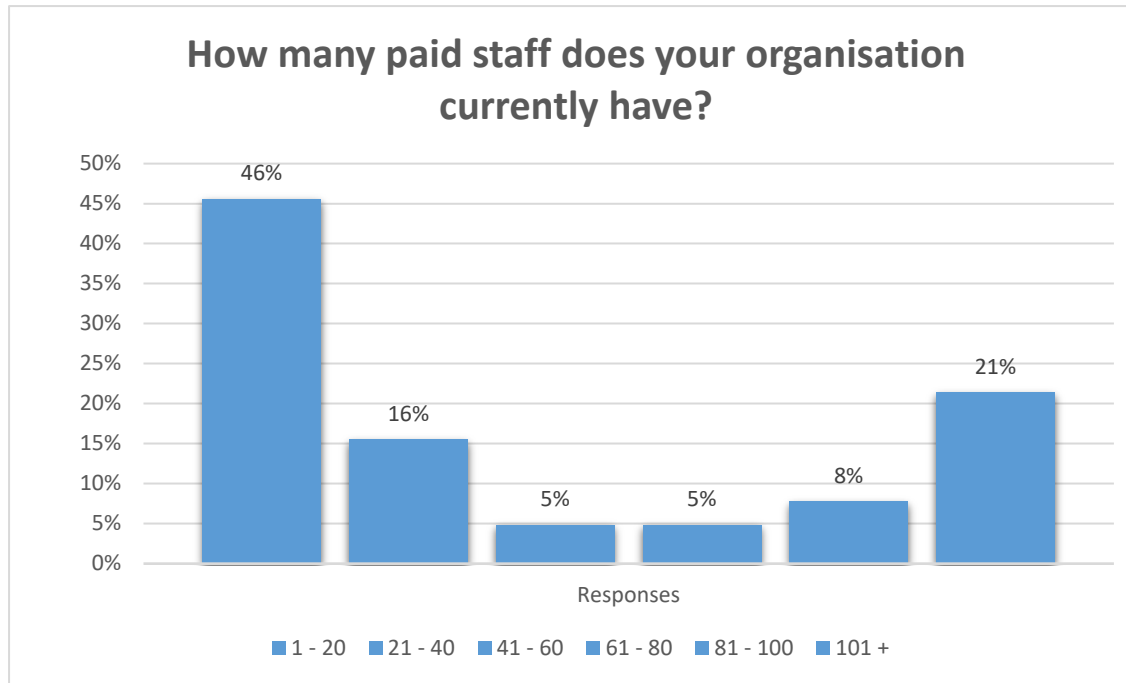
About the respondents – Their profile:

Main sector your organisation is involved in?



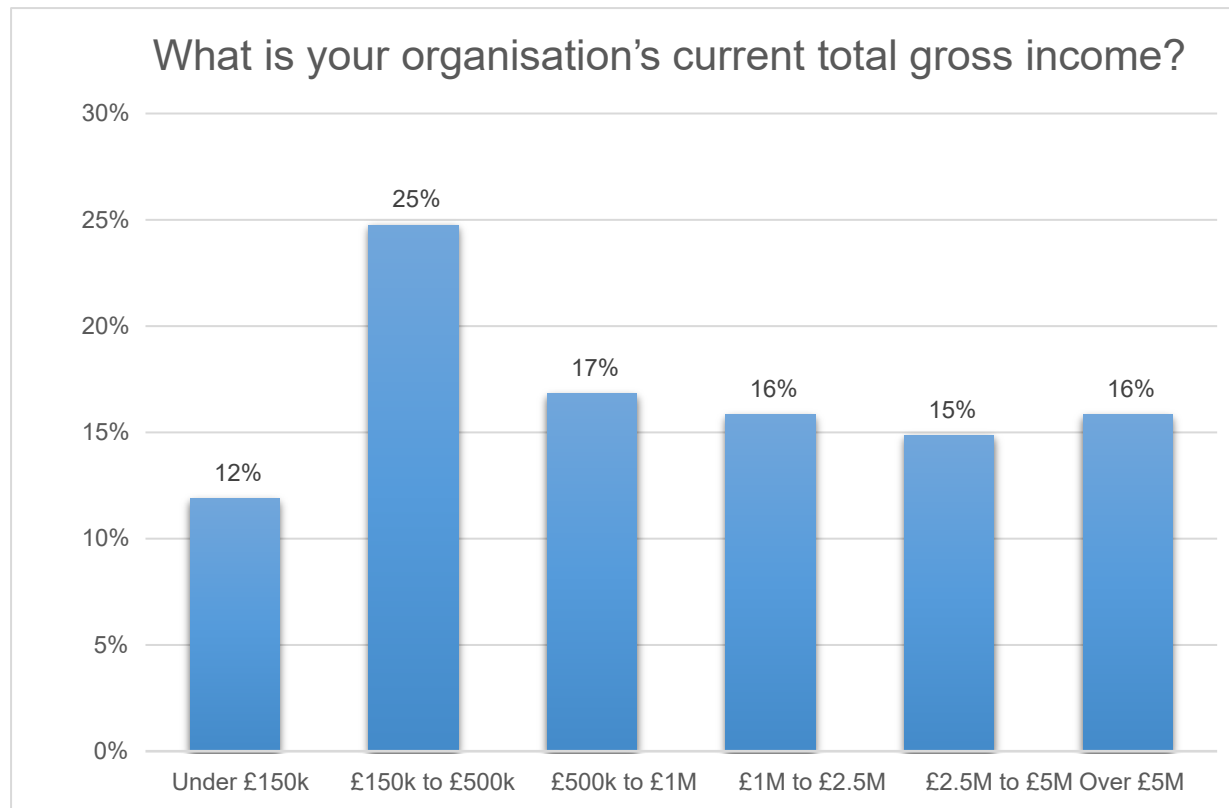
- Over one third (35%) of respondents representing organisations who work directly to relieve those in need by reason of youth, age, ill-health, disability, financial hardship, or other disadvantages.
- In addition, a further 29% of respondents worked directly within the health and social care sector – delivering services which support people living with disability or one or more physical and/or mental health condition.

About the respondents – Organisational size



- Nearly half (46%) of respondents stated their organisation employed between 1-20 staff, indicating the survey sample represented small to medium sized community / voluntary organisations that were local and based right in the heart of local communities.
- 29% of respondents have 80+ employees.

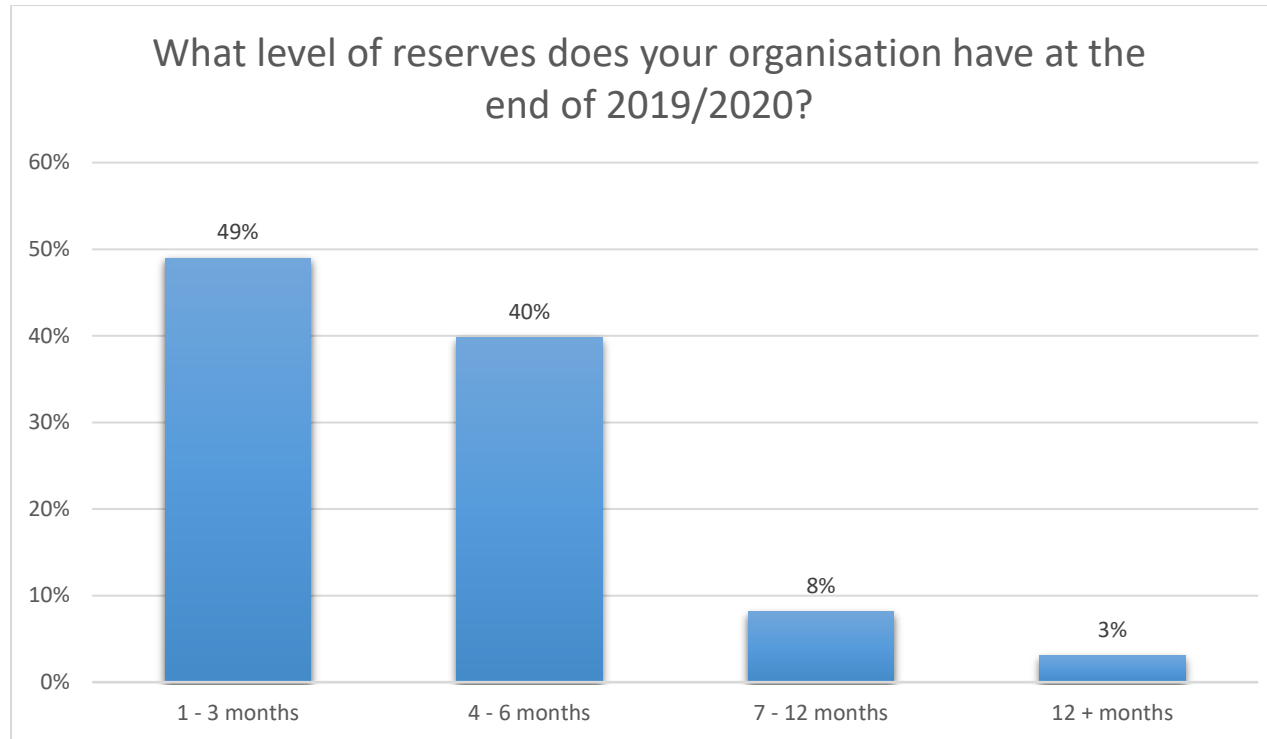
The financial footprint: Organisational gross income:



- Respondents are evenly representative in terms of gross income, with the largest group (25%) generating an income between £150,000 and £500,000 per year.
- In addition, under half (46%) of respondents represent organisations that have a gross income of £1m or over per year.

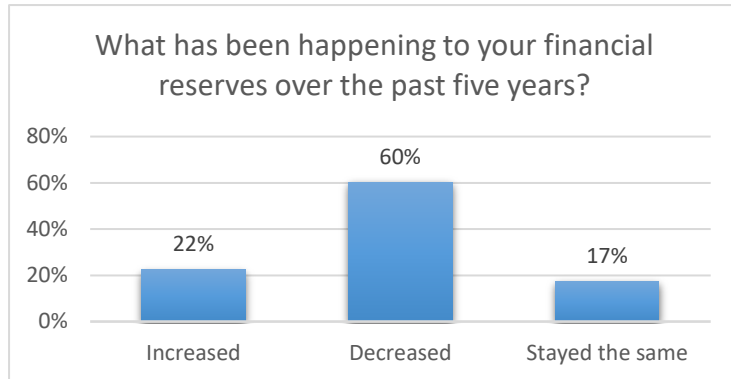
The financial footprint: Reserves:

The state of reserves at the end of 2019/20:



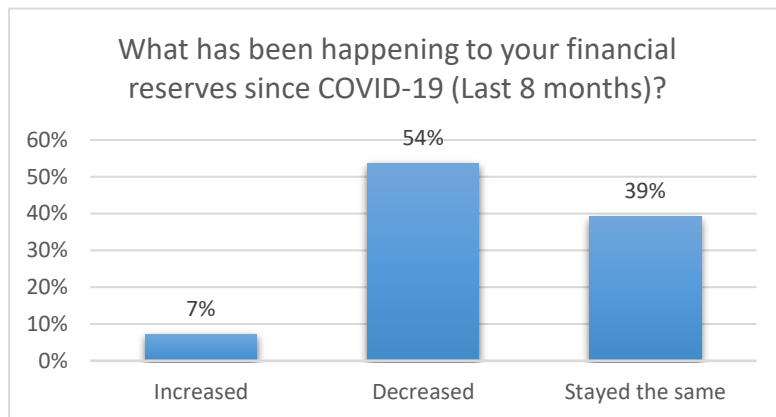
- Nearly half (49%) of respondents have three months or less of reserves.
- Nearly nine in every 10 respondents stating they had six months or less of reserves.
- Only a small proportion (3%) have 12+ of reserves.

The state of reserves over the past five years:



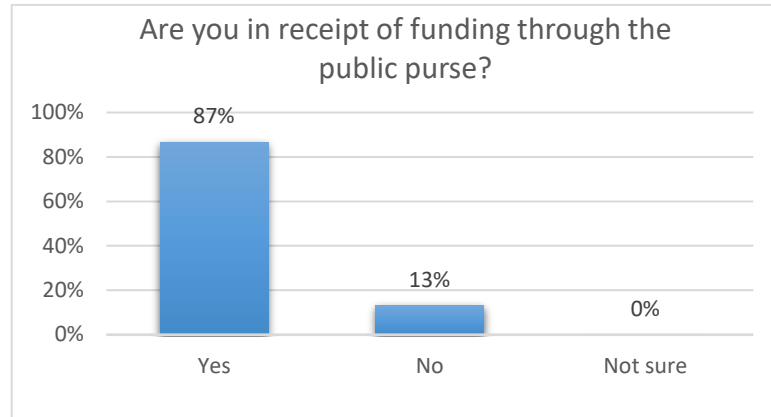
60% of respondents stated financial reserves have decreased over the past five years.

The state of reserves in the last 8 months since the start of the pandemic:



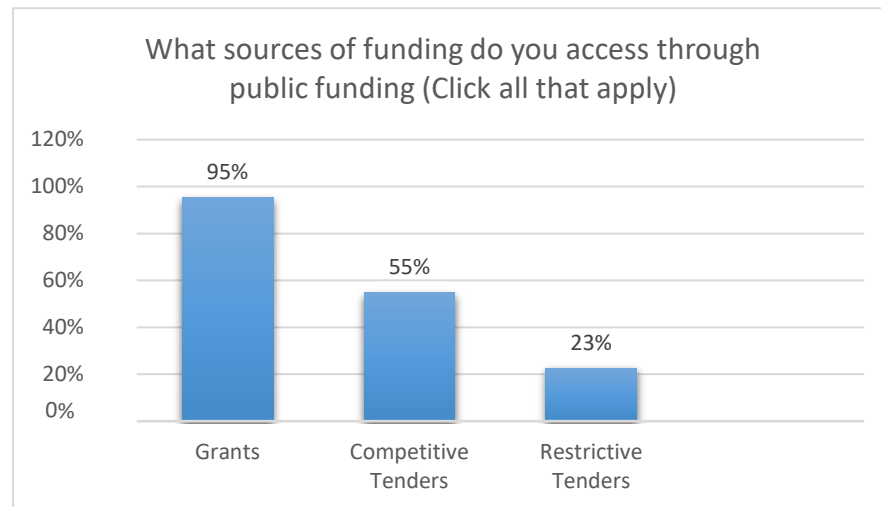
Over half (54%) of respondents stated their organisation's financial reserves had decreased since the start of the pandemic. A small proportion (7%) have experienced an increase and 39% of respondents reserves have stayed the same.

Understanding charity funding - The Overview:



When asked whether their organisation was in receipt of funding through the public funding purse, nearly 90% of respondents stated YES.

When asked what sources of funding organisations access through public the following was identified:

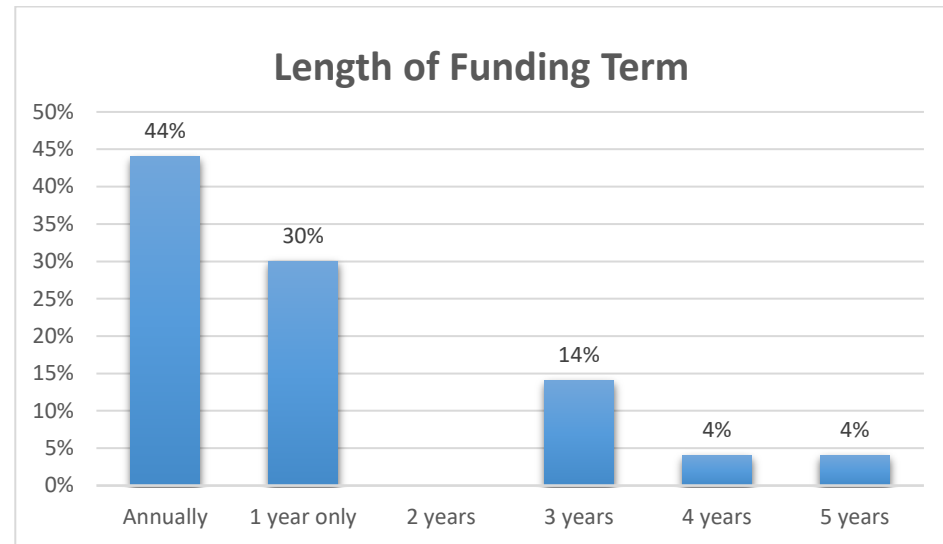
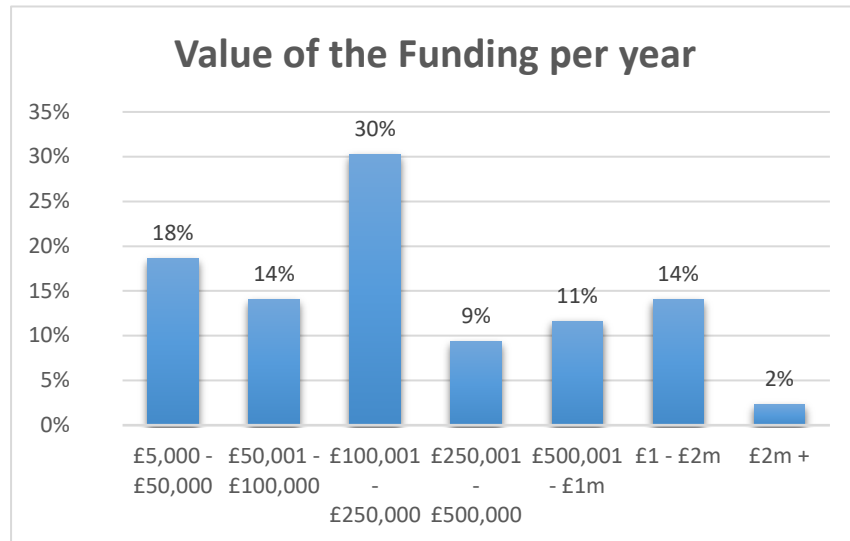


Of the 84 out of 104 organisations that responded to these questions, it was clear organisations secured different types of public funding but overwhelmingly the majority (**95%**) of funding was through grants.

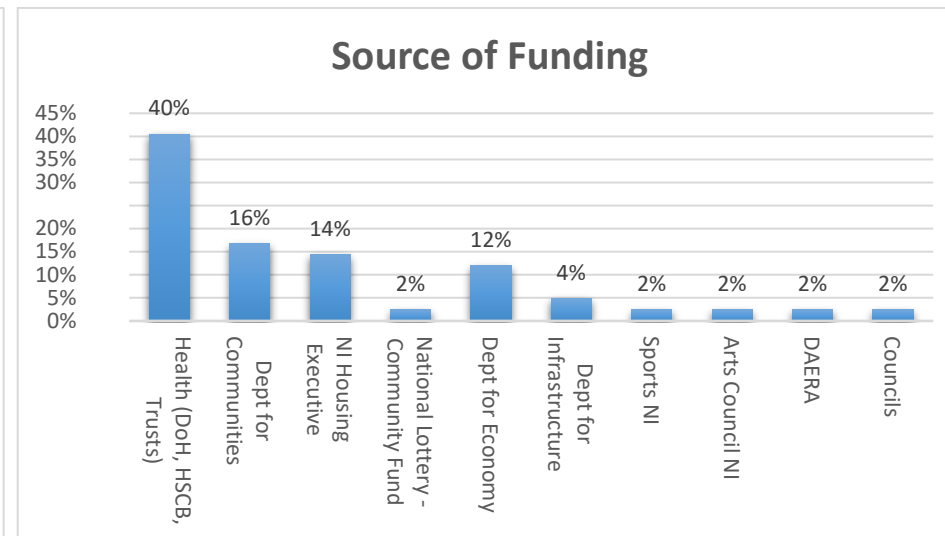
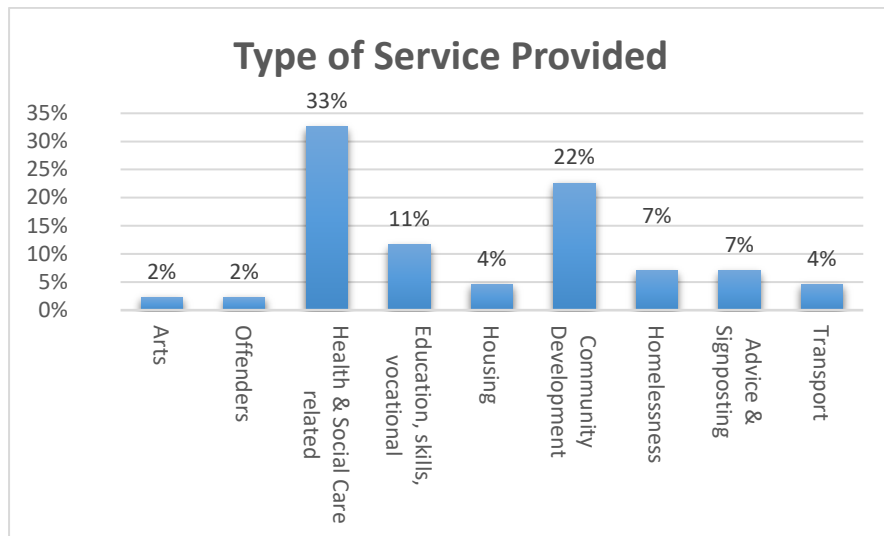
In addition, 55% of respondents stated they secured funding through competitive tendering.

Understanding the impact of the funding stream – GRANTS:

A range of questions were asked of the respondents who answered Yes to question 8 of the survey, seeking to understand, the value of the public sector funding and if respondents viewed that the funding was awarded on a FCR basis. Outlined below is the breakdown of responses regarding grant funding:

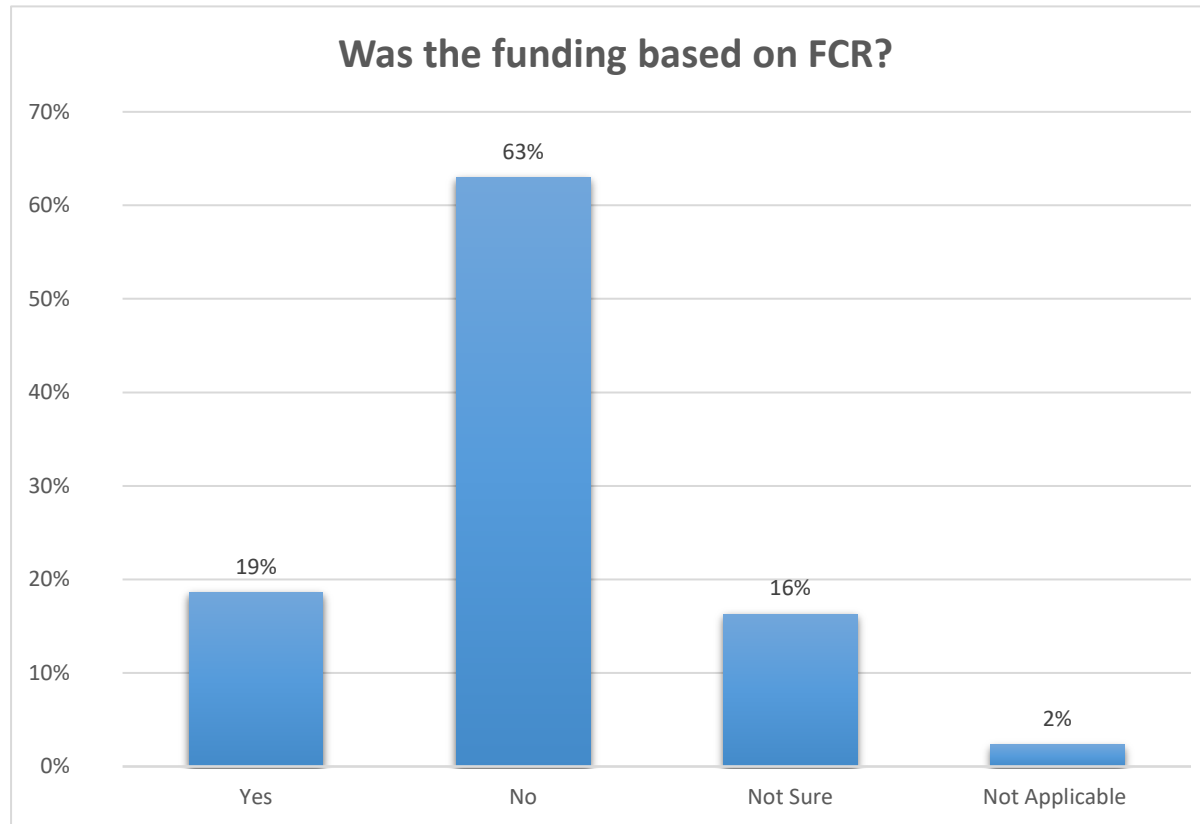


- Nearly **two thirds (64%)** of respondents received grants between £5,000 and £250,000 each year – of which, half of this group received funding over £100,000.
- Nearly **three quarters (74%)** of respondents stated their average funding term was short term– indicating funding was provided either annually or on a one-year basis.
- Less than **one quarter (24%)** received three years or more grant funding at a time.



- Given the breakdown profile of respondents, it was evident the type of services provided via the grants were within Health & Social Care based activity (33%) and supporting work that supported community activity (relieving hardship for those in need by reason of youth, age, ill-health, disability, financial hardship, or other disadvantages). Collectively, grant funding support over **half (56%)** of services in both these areas.
- In terms of the funding source, **40%** of the funding came from within Health & Social Care – either directly from the Department of Health, the Health & Social Care Board, the Public Health Agency, or the Health & Social Care Trusts.

Understanding the impact of Full Cost Recovery (FCR)



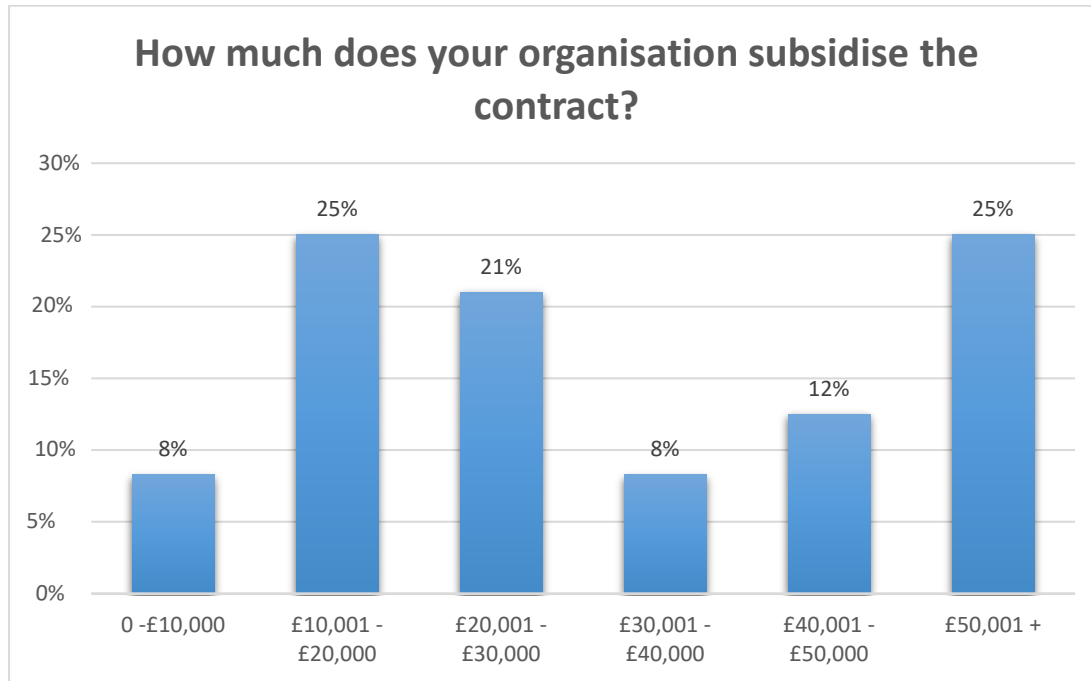
Nearly **two thirds** (63%) of respondents stated their funding did **NOT** include FCR.

Less than one fifth (19%) respondents stated their funding included FCR.

It is concerning that 16% of respondents were unsure as to whether funder included FCR.

- Of those respondents that stated no, just over **half (56%)** highlighted the funder covered up to 75% of the actual funding required to deliver the service.
- Equally, when asked what % of the service was covered by the organisation **nearly 80%** stated their organisation covered at up to 25% of the actual funding required to deliver the service.

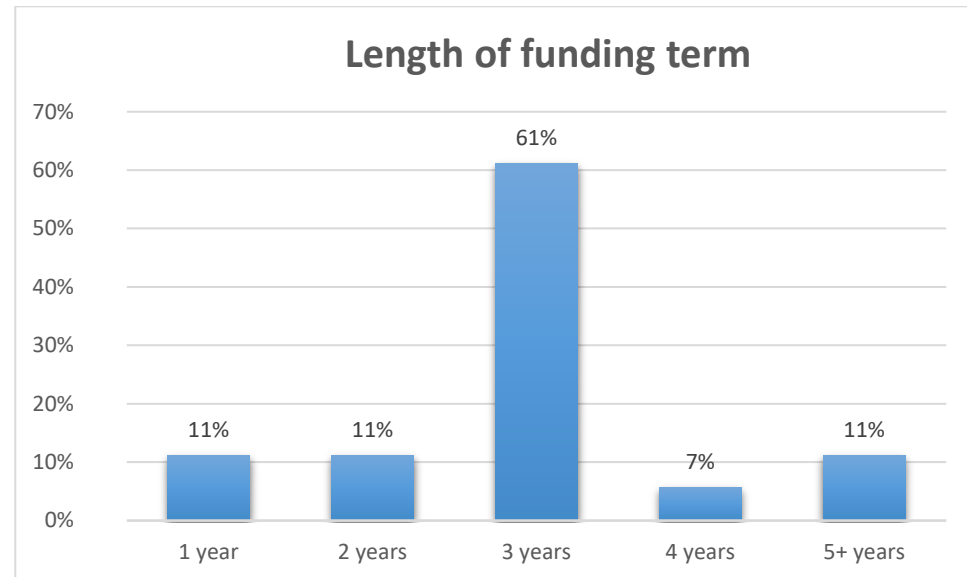
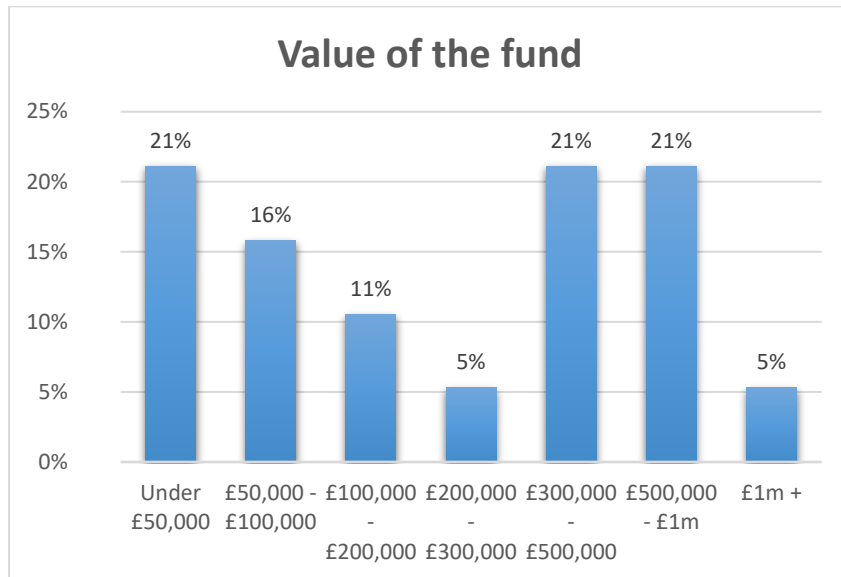
In terms of actual cost:



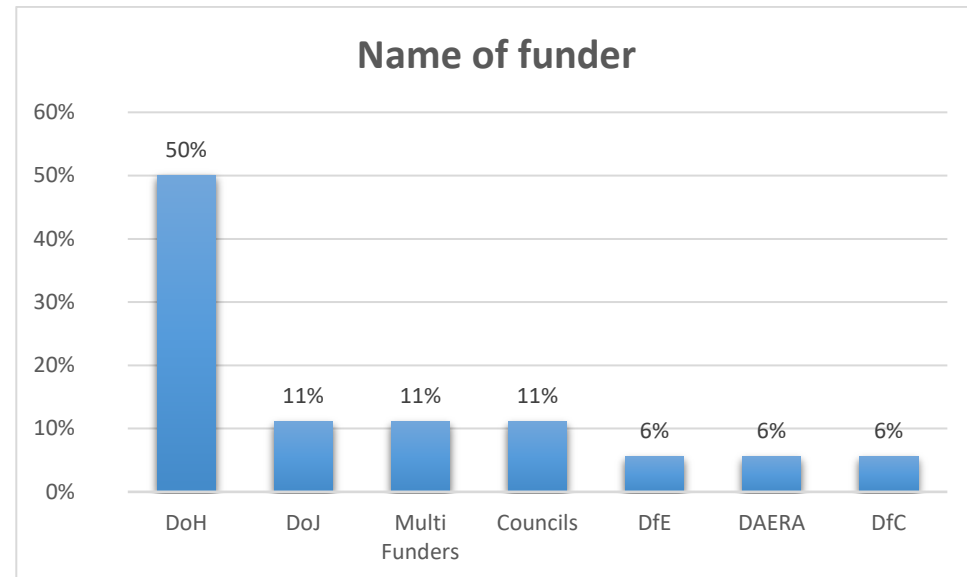
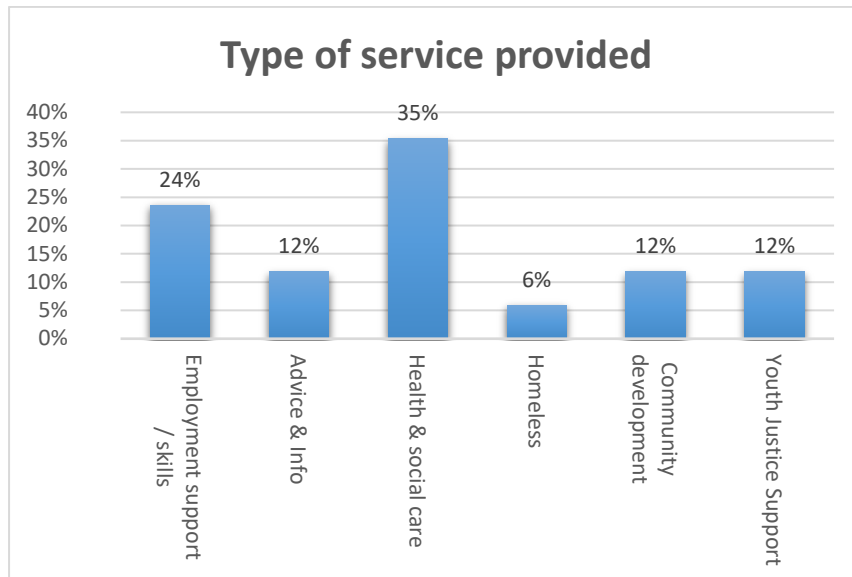
- **One quarter** of organisations had to subsidise the contract by **over £50,000**.
- **Over 40%** of organisations subsidised their contracts between £20,000 and £50,000.

Understanding the impact of the funding stream – COMPETITIVE TENDERS:

A range of questions were asked of the respondents who answered Yes seeking to understand, the value of the public sector funding and if respondents viewed that the funding was awarded on a FCR basis. Outlined below is the breakdown of responses regarding competitive tendering:

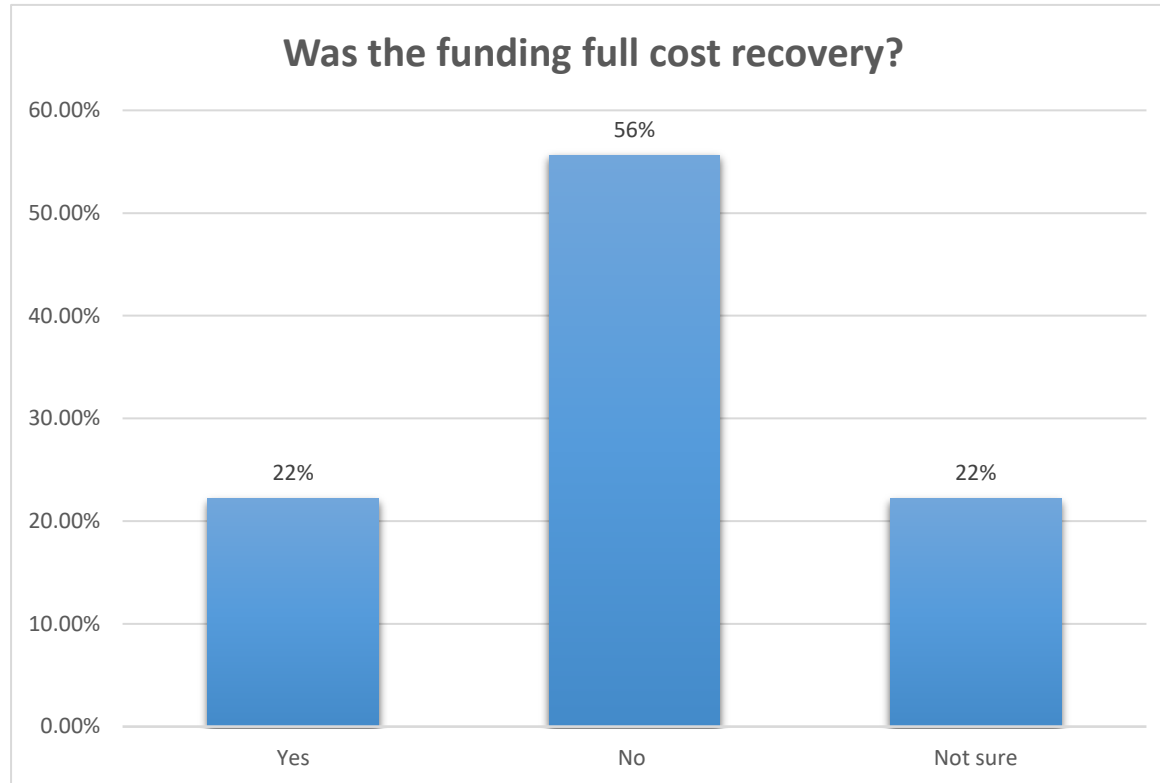


- Just **under half (48%)** were awarded a competitive tender between £10,000 and £200,000.
- Over **one quarter (26%)** of respondents received grants of £50,000 and over.
- Over **three quarters (78%)** of respondents stated their average funding term was three or more years.
- One in ten (11%) respondents stated they received competitive tenders that only covered one year of funding.



- Given the breakdown profile of respondents, it was evident the type of services provided via competitive tenders were identified as Health & Social Care based activity (35%). In addition, nearly a quarter (24%) of all competitive tendering funding supported the provision of employment support and skills within the community and voluntary sector.
- In terms of the funding source, **half (50%)** of the funding came from within Health & Social Care – either directly from the Department of Health, the Health & Social Care Board, the Public Health Agency, or the Health & Social Care Trusts.

Understanding the impact of Full Cost Recovery (FCR)



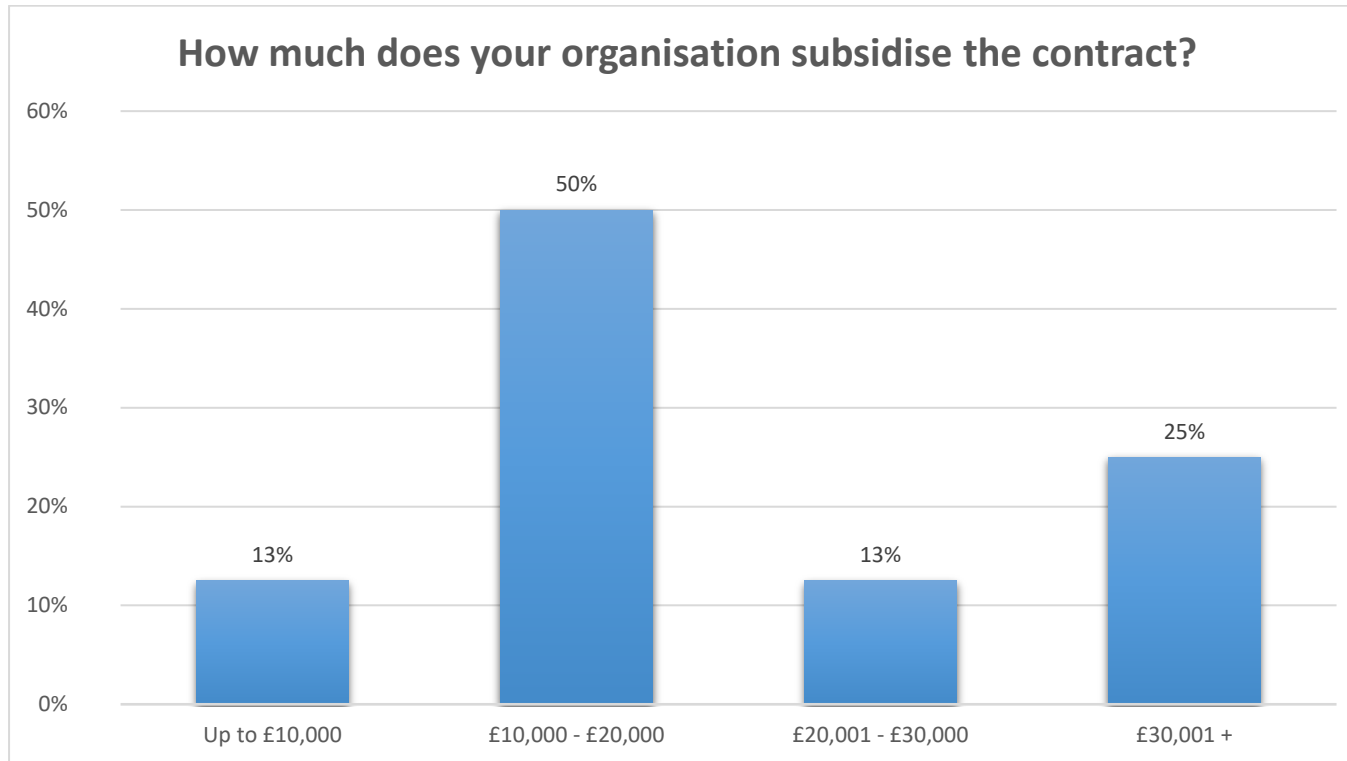
Over half (56%) of respondents stated their funding did NOT include FCR.

Under a quarter (22%) respondents stated their funding included FCR.

It is concerning that nearly a quarter of respondents did not know whether their funding included FCR.

- Of those respondents that stated no, half (50%) highlighted the funder covered up to 75% of the actual funding required to deliver the service.
- Equally, when asked what % of the service was covered by the organisation nearly **three quarter (73%)** stated their organisation covered up to 25% of the actual funding required to deliver the service.

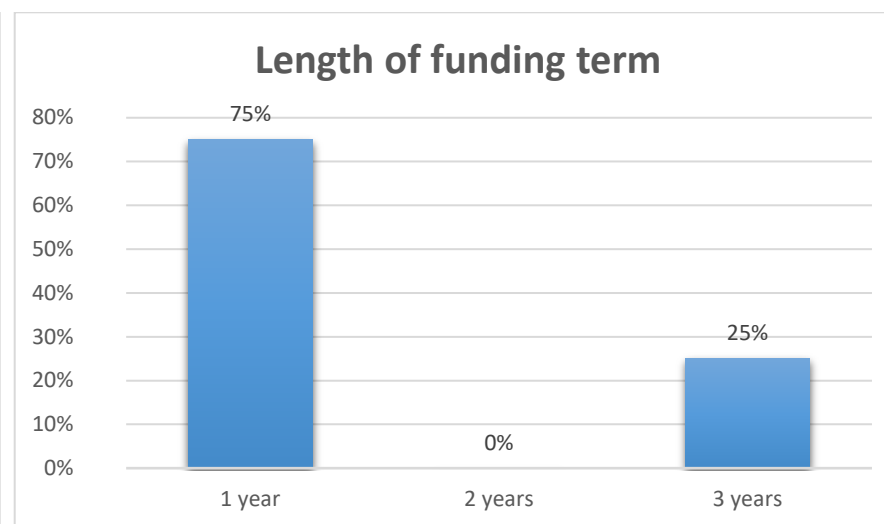
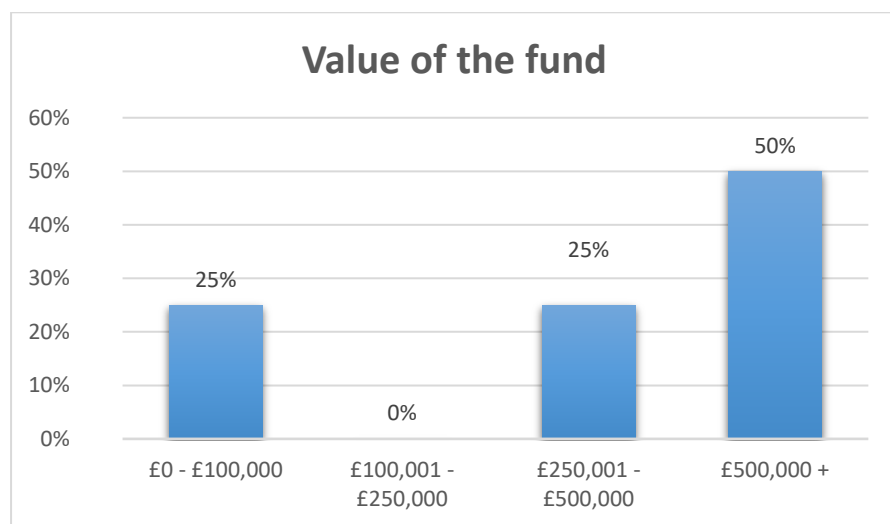
In terms of actual cost:



- **One quarter** of organisations had to subsidise the contract by **£30,000 or over**.
- **Half** of organisations subsidised their contracts between **£10,000 and £20,000**.

Understanding the impact of the funding stream – RESTRICTED TENDERS:

A range of questions were asked of the respondents seeking to understand, the value of the public sector funding and if respondents viewed that the funding was awarded on a FCR basis. Please note, given the nature of the type of tender the number of respondents was small with only 4 out of 7 respondents answering this section. Outlined below is the breakdown of responses regarding restricted tendering:



- **Half** of respondents were awarded a restricted tender to the amount of £500,000 or over.
- **Three quarters (75%)** of respondents stated their average funding term was one year.
- In terms of type of service, **three quarters** of restricted tenders support the delivery of health and social care-based services.
- In terms of the funding source, half (50%) of the funding came from within Health & Social Care – either directly from the Department of Health, the Health & Social Care Board, the Public Health Agency, or the Health & Social Care Trusts.
- **50%** of respondents stated FCR was included within the restricted tenders.
- **Two thirds** of respondents stated they received 75% or over of the funding.
- **In terms of cost – one respondent stated they incurred a cost of £80,000 or 20% to the organisation over one year to deliver the service.**

Conclusions:

Despite the difficulty in predicting the full impact of the pandemic on the wider third sector, it is clear the ongoing lack of inclusion of full cost recovery within grant funding, competitive and restricted tenders is hastening financial collapse of a large section of a sector that has a significantly critical role in helping to build back better our society in the aftermath of the global pandemic. Many charities feel that commissioners and funders will not pay for overheads and hold their costs at an artificially low level. In turn, funders see the low rates being charged so expect to see that from everyone. It also creates a level of competition among charities and social enterprises, creating an impossible cycle of underfunding. This downward cycle is known as the 'starvation cycle'. There are concerns that low charity overheads are having a fundamental impact on their infrastructure and future resilience. Contracts and grants end up being negotiated at rates which are not sustainable and are heavily subsidised by charities without the funder fully appreciating this subsidy. Based on these findings, we believe the recommendations below need to be put in place.

Recommendations

Outlined below are several key recommendations/asks CO3 would encourage key decisions makers and funders to consider as soon as possible:

- 1. Full cost recovery needs to be built into every funding stream and procurement procedure for all future funding activity of the VCSE. Charities and social enterprises must be able to put forward transparent and appropriately costed bids with all costs covered including a fair proportion of overheads. Funders need to fund charities on a sustainable basis. In order to achieve this formal recognition of a full cost recovery framework adapted across all elements of public sector funding would ensure that a full cost recovery methodology is embedded into the design of public sector funding. This framework would require to be co-designed and agreed with the sector and recognised as good practice.**
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To discuss any of the points within this report please
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